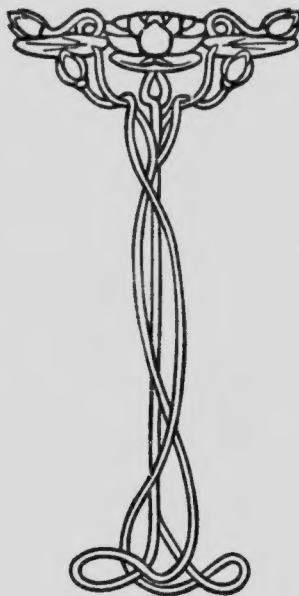


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# The Framework of Industrial Society

By HON. JOHN HARVEY



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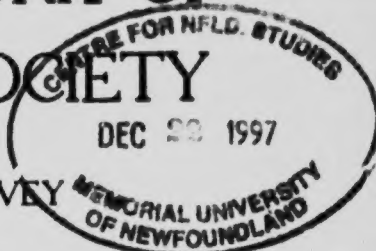
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# THE FRAMEWORK OF INDUSTRIAL SOCIETY

By HON. JOHN HARVEY



I HAVE not seen the Constitution of the Newfoundland Industrial Workers' Association, but I understand in a general way that the organization stands for improvement in Social and Industrial conditions in this Colony through evolutionary methods and not through revolutionary ones. If that is correct I think that it may count upon a good deal of sympathy in its general aims from many who are outside its ranks and who are often thought to be opposed to it in principle and in practice.

A great deal of the apparent opposition and friction among individuals and classes is often directly traceable to one set of men not being able to appreciate the point of view of the other set, and to their being unable to recognize one another's difficulties. For there are real problems and difficulties upon both sides, and these difficulties not being reciprocally understood are very apt to lead to misunderstanding and bitterness.

As a matter of fact the whole of industrial society hangs together. In times of general prosperity wages and profits mount together. If the workers upon one flat of the factory, or in the office, begin to quarrel with the floor above or below them, the entire operation of the plant will suffer and everyone be more or

less adversely affected. The most important thing is that the several interests should know and understand each other.

It is an every day experience, when you get to know a man or whom you have always had a dislike you are surprised to find that he has many good points and that he is not as evil through and through as you thought he was. Also that he may have difficulties of his own which perhaps you overlooked.

I think it was Charles Lamb who said "I simply hate Jones"; and when his friend replied "Why you don't even know him," Lamb replied "No, I don't, and I don't want to, because if I did I'm afraid I would like him."

There are two ways about going about reforming the Industrial World. One is the Revolutionary way and there is a first class example of that to-day in the Bolshevik system which has suddenly imposed itself upon Russia and which has already brought such ruin upon that country and such injury to all the world, that it will take many years, as it has already taken untold treasure and suffering, and thousands of gallant lives, to restore what is lost; and the worst sufferers will be those who are supposed to be benefitted by these crazy theorists.

The other way is the Evolutionary way, which it is to be hoped Western Civilization will consciously adopt, through which the capitalistic element and the human element will get together in mutual trust, will obtain a comprehensive and deliberative understanding of the problems of Society as a whole, will enter one another's councils, and will strive not to destroy but to develop the institutions upon which modern civilisation and freedom and progress have been slowly reared.

There are special reasons why in this ancient Colony of Newfoundland the mutual understanding should be more readily and easily attained than in any other community known to me, even though it may be backward in so many departments of modern life.

I am well aware,—indeed that is what I want to say—that no one side of this complex problem represents the whole of it, and while I shall deal in these notes more particularly with one aspect of it,—I do so, not because I think it represents the whole of the problem, but because it is an aspect which must not be lost sight of by any body of men who are seriously studying the industrial situation, and because in its broad implications that aspect is I think not sufficiently understood or weighed by people generally.

Improvement in social conditions by evolutionary methods does not call for any necessary strife or bitterness between labour and capital so called, nor does it necessitate what is so often preached, the socialisation by definite political action, of the means of production. Strife deliberately carried out inevitably entails waste and destruction in some degree. Socialisation, carried to its logical end, in wholesale government ownership, means creeping paralysis and ultimate stagnation.

What is wanted is a steady growth of individual development, individual capacity and ambition, and an individual ownership of National Assets based as broadly as possible among all classes. For proper development there must be opportunities for *individual* advancement and for material security, opportunities that shall be always more equal and more open for everybody, so that intelligence, industry, energy and thrift, wherever they appear, shall not be balked of their chance of reward in the fullest sense. This is at least as important for the advancement of the community as a whole as it is for the individual in any walk of life. For the individual makes the community, and the advancement of the latter is dependent upon the initiative and energy of the former.

So great an advance along these lines has already been won, especially among the more developed nation, that a strong *prima facie* case exists why untried and revolutionary methods, entirely subversive of the general principles which have governed previous progress, should not be permitted to obtain a strong hold upon large numbers of intelligent people, and yet such theories form the basis of many of the political appeals of the day and they are often used deliberately by people who know quite well that they are claptrap.

In the formation and success of Unions of all kinds, in the steady growth of general education, in the more scientific study of the problems of taxation, in the extension of public means of transit, and in public postal facilities, in the common conveniences of life, public health, hospital facilities, the growth of small savings, and in a thousand things, the opportunities of life are constantly being more equalised. The possibilities of meeting the am-



bitions of energy and thrift have been growing, (though they are only as yet in an initial stage) and through the modern system of banking and the increasing principle of registering industrial operations in the form of limited Companies with Shares of small denominations, the road towards broad basing capitalistic operations of all kinds upon mass ownership is becoming steadily clearer and the pace will grow constantly more rapid.

This, I think, the compass of common sense indicates as the course which the ship of normal Western Civilisation has been pursuing. The steady development of this course, though it may not always be as rapid as it ought to be is not likely to grow less rapid in the near future.

At any rate the progress seems to be sound and sure and it appears that whether a man be an officer on the upper deck, or an engineer, or a deck hand, or a cabinboy, the most important thing for each and all is to avoid monkeying with the compass or trying new and strange experiments with substitutes for that instrument, for such experiments are exceedingly liable to set the ship upon a new and unknown course and are likely to end her on the rocks.

The outstanding problem of modern industrial life is frequently referred to as if it was a growing struggle between two distinct and utterly divergent conceptions, viz.: as a struggle between Capital and Labour.

To this common denominator some people, Trotzki for instance and the Bolsheviki, reduce all modern social phenomena, even the great war. The conception is hopelessly false. Its practical application is now resulting in the destruction of Russia and the ruin of her people, rich and poor alike. But the sacrifice of Russia may prove not to

have been altogether in vain. The quicker, the more violent, and the more logical is the working out of these theories there, the more vivid will be the object lesson to the world at large, and the more forcefully will that lesson be impressed upon men of sound mind among the more enlightened nations of the earth. Ordinary intelligence must conclude that the complete servitude of any large class to another, or of the community as a whole to any one class, must bring ruin to all, and the conception of "Evolution not Revolution" must become the lodestar of enlightened public opinion.

The line of demarkation between Capital and Labour is by no means as strongly marked as it is often represented to be. Men are constantly passing from one category to the other and the two categories are to-day not infrequently represented more or less in the same individual. This is especially true of this country. The tendency is constantly for the workers as a body to control more capital. Taken in the mass while they are only beginning to recognise their potentialities as owners and controllers of capital, they are nevertheless becoming increasingly self-conscious of their outlook in this direction.

This has recently been very clearly demonstrated by the enormous increase in the number of small subscribers to Government loans all over the world. The tendency is also shown here by the establishment of Co-operative Societies, by the successful formation and activity of the F.P.U., and by the growth of commercial concerns all through our Outports.

In order to get a clear conception of the economic problems of society, it is necessary to understand what Capital really is. The term Capital is too often confounded with the

idea of money in its narrowest sense, regarded as coin of the realm. It is therefore necessary also to get a clear idea of what Money is. The true meaning of the conceptions Capital and Money is less simple than they appear to be to most people.

The term Money is used to cover a number of more or less related instruments. Money in its various forms is primarily and mainly a medium for facilitating the equitable exchange of other commodities and for settling debts. The universal and fundamental modern money is Gold. Gold has been gradually evolved through many centuries as the most useful commodity for the purpose, because it is in universal demand as a desirable metal in itself, because it is practically indestructible, because also it is homogeneous, that is it can be subdivided into any number of parts without deterioration or change, and it is compact and can be easily transported.\* In all countries Gold is legal tender—that is, the Law authorises the settlement of debts in gold. There are subsidiary or token coins principally of silver, nickle and copper, and also paper money, but these in every case are supposed to represent so much gold. They are frequently guaranteed by the Governments that issue or authorise them, as being equivalent in value to, or exchangeable for, a definite quantity of gold.

Throughout the British Empire and in America a very large ad-

dition has been made to the currency by artificial additions thereto in the form of Bank Cheques which are supposed to represent gold and are generally accepted as if they were gold. As a matter of fact there is not gold enough in the World to begin to redeem the subsidiary coinage, Government paper, Bank Notes and Cheques which circulate daily from hand to hand as if they could be redeemed in gold at a moment's notice.

Nevertheless these instruments do circulate by common consent and are accepted on credit or faith just as freely for the most part as if they were gold itself.

Everyone receives cheques and notes as if they were gold, as if they were legal tender, i.e., as if they were recognised by Law as being legal payments for wages and debts. But in the case of much of the paper currency, as well as of the Bank Notes, and of the Cheques, they are not in reality a legal settlement of debts at all. They are nevertheless accepted as a matter of convenience, because they are, like gold, readily exchangeable again for other things—and in practice they *are* immediately exchanged for food, clothing and various useful and desirable things. This is a matter of common consent, of faith in the general honesty of people—in brief, of credit.

It will be obvious to anyone that, given a certain definite amount of money in the world on the one side, and a certain definite quantity of consumable goods on the other,

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\*There are of course many other reasons that have tended to place gold in its unique position as the money basis of the world. There is for instance the fact that it cannot be multiplied indefinitely as paper currency or money made from a baser metal could be. Neither is it entirely too scarce like platinum. Furthermore its production, though subject to some fluctuations (generally extending over long terms of years) is not subject to the excessive and violent irregularities to which most mundane things are liable, and the amount of its annual production, though sufficient to increase steadily the total stocks, is not sufficiently great to add a disturbing percentage at any time to the accumulated stock already in existence.

there will be a fixed ratio between the two. That ratio is expressed in the prices of commodities. The total of commodities being bought and sold is measured by the total amount of money available for purchasing them. A ratio is established, and as long as the total quantity of goods and the total quantity of money remain unchanged, the ratio between them will broadly speaking remain the same. That ratio being expressed by prices, the *prices* of commodities will under such circumstances also continue unchanged.

But suppose that without increasing the quantity of money you suddenly double the quantity of necessities and luxuries in existence and desired by the people of the world, you will then only have the same amount of money against double the quantity of goods which are to be bought. It is obvious that in order to exchange one for the other you will have to exchange double the quantity of goods for the same quantity of gold, that was in existence before. In other words an ounce of gold will have to be exchanged for twice the quantity of goods that it was exchanged for when there were fewer goods to be purchased. Two barrels of flour will be represented by the same amount of gold that one barrel represented before. In other words the apparent value of a barrel of flour as expressed in money prices, would be only half what it had been. Prices of commodities would then have dropped and gold would (in monetary parlance) have appreciated.

This rule works both ways, of course. If on the other hand you suddenly double the amount of gold employed in purchasing goods, and at the same time do not materially increase the quantity of goods that are to be bought, you will then find

that an ounce of gold will only buy half the quantity of goods it would buy before. If in the first instance a gold coin would buy one barrel of flour, you would find, (when the whole stock of gold was suddenly doubled), that the same gold coin would only buy half a barrel,—that you would have to pay two coins instead of one for your barrel of flour.

Flour would have doubled in price. A given quantity of gold would buy less, i.e., gold would have depreciated in real value. An increase in the quantity of money therefore tends to make prices of commodities advance, which is the same thing as saying that money is depreciated.

This principle is known as the quantitative theory of money. It is borne out by experience as well as by common sense. Whenever in the past new Gold Fields have been discovered, accompanied by a large addition to the available stock of gold, there has followed a steady rise in the prices of commodities.

It is this principle more than any other that is responsible for the enormous advance in the prices of commodities during 1915, 1916 and 1917, and it is still operating.

When the war broke out the belligerent nations were suddenly called upon to expend vast sums of money, and as none of them had gold enough to use gold exclusively for the purpose, they one and all began to manufacture and to issue paper money which they guaranteed as *sound money*, i.e., as equivalent to gold, and in many cases they made it legal tender by legislative enactment, i.e., they made it legal for the payment of all debts. They added artificially to the quantity of money available for making purchases, and this process has been going on at an increasing rate ever since. Thus the quantity of money has been enormously increased. At

the same time many millions of men were taken away from the work of producing necessary commodities, and a great destruction of all kinds of existing goods and property began, and furthermore many other producers were obliged to bend all their efforts to the making of guns and munitions, warships, and other things, which were of no use to the average man, instead of creating things that the average man wanted.

The following situation then ensued: An immense increase in the volume of money and an immense decrease in the existence and production of useful commodities. The amount of money has increased whilst the supply of goods has decreased.

The inevitable result was an appreciation in the value of commodities and an equal depreciation in the value of money. As a result prices have much more than doubled throughout the world and they must continue inevitably to advance so long as these conditions continue, no matter what Governments may do in the way of price fixing. On the other hand when, following the war, this artificial war money begins to be called in, and the production of useful commodities again begins to increase, there will also begin a reduction in the prices of commodities as valued in money, i.e., sooner or later there will come a reverse movement, an appreciation of money and a depreciation in commodities, showing itself in a steady fall of prices, and the process of readjustment is going to be long drawn out, trying, and full of difficulty. It is important that before this time arrives there should be a clear grasp of the main principles involved, on the part of all responsible people.

It will be recognised from a consideration of the subject that money

is mainly a means for conveniently exchanging other goods. A dollar is a token representing a claim on personal services and on products, and this is what gives the dollar its value. To the ordinary human being a five dollar bill, or even the \$5 gold piece for which it stands, is of no earthly value in itself. Its value lies solely in the *goods* that it represents, i.e., in its exchange value. A man be wealthy, may be a Capitalist, without having more than a few dollars of actual money. It is well to bear this fact in mind. Suppose flour is ten dollars a barrel and you need ten barrels to see you and your family through the winter. You have \$100 cash and you can buy your ten barrels. But suppose you neglect to do so, and wake up a week later to find that flour has doubled in price and costs \$20 a barrel. You can only now buy 5 barrels. You have the same amount of money, \$100. You are to all appearance worth as much as you were before, but as a matter of fact you are a much poorer man. Why? Because real wealth is not money at all, but goods and property.

It is most important to an understanding of the Industrial World of to-day that this primary fact shall be clearly understood. The solution of the problems of the State, of Labour and of Capital are largely dependent upon it.

And I come now to the question, What is Capital? When we speak of Labour and Capital what do we mean by Capital? One thing I hope is fairly clear, and it is that in a strict sense money is in itself not real Capital. Money is simply a token representing value,—goods, property and services,—for which it may be exchanged. If there was nothing else in the world to-day except men and money in the shape of coins and bank notes—no buildings and no goods—there would be in



fact no Capital, and even if there were millions and millions of money, everybody would be poor. If on the other hand all the money now in existence were suddenly cancelled and wiped out, while everything else were left intact, Capital in a true sense would remain as valid and tangible a thing as it is to-day. The conception of Capital therefore as being simply money is entirely fallacious.

Of course money may, and does to-day, represent a *call on* real Capital—exists as a token for Capital—this is entirely a matter of the exchangeable value of the money—and it is this that really gives it value—but clearly it is not itself Capital. Many people are apt to think that because England, for instance, has among other things issued a billion and a half dollars of money in the shape of currency notes since the war began, a considerable portion of which has been added to the cash in peoples' pockets and in the Banks, the English people are much wealthier than they were. That is a fallacy.

It is a fallacy because wealth does not consist of money but of commodities, and the quantity of commodities has not increased. It has decreased.

The people of England therefore as a whole are not richer, but poorer, notwithstanding the increased amount of money in their pockets.

I have tried to show how the money in the World has been increased out of all reckoning during the past four years, but if the explanation has been clear you will on the other hand also understand that the Capital in the World has not been increased but as a matter of fact it has been very largely decreased.

Capital in reality is constituted of goods and property saved from current consumption and available for

the further production and transportation of materials of various kinds. It may be defined as goods saved from current consumption for the purpose of being used again in further production.

An appropriate and classic illustration of what Capital really is, is that of a member of a savage tribe which exists precariously on fish caught from the rocks which jut out into the sea. One member of the tribe lays up a store of dried fish by saving a little fish every day from his rations, until he has enough put by to last him for several weeks. As a result of this he is able to stop fishing for a while and to build himself a canoe in which he paddles off to the deep water two or three miles from shore where in one day he can catch as many fish as he could catch off the rocks in a week. The store of dried fish was the first capital which was saved from consumption and kept to live on while he was making his canoe. Having done this, having put his Capital into his canoe, he can if he likes hire the canoe out to his neighbours taking part of their catch as payment, while he himself builds more canoes.

His neighbours get more fish for less work and have more time to build better canoes for themselves, or to improve their dwellings or to better their general condition in any way they like. The original member in becoming a Capitalist has improved his own condition and at the same time the condition of the community. This is the primitive and simple basis of Capital, *and in broad essentials it is the basis of Capital to-day.*

Capital consists primarily and essentially of savings—savings made by individuals and by groups—and then utilised for production. The value of the savings, i.e., of the

capital—lies *solely* in its utilisation for reproduction.

If the savings—as for example the store of fish—is not intelligently used for reproduction—if it is allowed to remain untouched until it spoils—or if the owner simply lays off from work and does nothing until it is consumed—or if he exchanges it with some member of another tribe for red ochre with which to render his appearance more objectionable than it would otherwise be—or if he trades it for a gallon of rum on which he gets first drunk and then ill—he is obviously a waster, and his efforts have done more harm than good. It is often said that a man who spends money freely and foolishly is at any rate circulating money and benefitting tradesmen and the community generally by such expenditure. There is no greater fallacy. The money that he does not spend, but saves for reinvestment is what is valuable. What is wasted in extravagance and unnecessary consumption is for the most part simply lost to the community, besides keeping him in idleness instead of in useful work.

In my opinion the whole theory of taxation which proposes taxes on Income, *without reference to the use made of the income*, is wrong in principle, insofar as it eventually places the heaviest tax upon the man who saves and reinvests his earnings and who works to try and make them reproductive, thus transforming his savings into productive capital which will at once benefit the community as a whole, while it levies the lesser tax upon the man who starting with the same amount of income, saves none of it, but wastes it all upon personal gratifications.

The point I have been trying to make clear is that goods saved from consumption and used for reproduction, i.e. Capital, is, as the world

happens to be constituted at present, a first necessity for progress and well being for all classes, and irrespective of who may nominally own it, provided only that it is intelligently invested, it is a good thing for the man who nominally owns it and a better thing still for the community at large, and the more of it there is, the better.

Without Capital, i.e. without profits saved and used for the purpose—there can be no improvement in the conditions of life, no new enterprises, and no maintenance of the plant, the implements, and the means of production which we have already.

This does not mean of course that Capital is all virtuous, or that it is not right that it should be held substantially in check, or that it is not human and therefore liable to do wrong.

It is not to say that it may not become predatory under certain circumstances, or that its yoke which is in the main advantageous and beneficial, may not tend to become burdensome if it is not controlled by moderation and reason.

But it is to say that Capital is not a thing which is a natural enemy to people generally, or that it ought necessarily to be penalised, or that its existence and increase within any community ought not to be encouraged. It should not of course be permitted an undue and overwhelming share of power, but it should be allowed its fair influence in all matters that concern it, and its interests must not be ignored. If they are the entire community will suffer.

In this country, during recent years at least, practically all the profits made in commercial business, over and above what is probably in the aggregate a not very unfair disbursement upon living expenses by owners and managers, have been

saved and re-invested here. It is these savings made by commercial businesses that have enabled the Trade to give tangible security to the Banks for the very large amount of money that has been borrowed, and is being largely borrowed to-day for the purpose of providing the food and necessities of life, the schooners and fishing gear, the supplies of all sorts, the new vessels without which the Dominion's plight would have been a desperate one, the very large amounts of prepaid freight and insurance, and all the other enormously increased activities and expenses necessitated by the War.

It is mainly the commercial savings, which have universally been put to work again here, that have enabled the population of this Island to meet the changed conditions, to pursue their avocations, and generally to weather industrially and without any special burdens, the unprecedented conditions which have confronted them.

In passing let me refer very briefly to the subject of wages. A difficult subject to treat of and the details of which I will not presume to discuss. It is obviously the interest of the Community to see wages high, as high as possible, always provided they do not go beyond the limit set by the natural laws of general economic well being. It is obviously a case for progressive moderation. Wages should be as high as possible consistent with the ability of the general output of the country to stand them without undue strain. Possibilities regarding wages are therefore a matter of output. It is often difficult to estimate how high wages may safely go at any particular time. They should not be so high that legitimate returns on Capital after paying taxation, are insufficient to justify enterprise and investment, or to provide suf-

ficient savings for the maintenance, replacement and extension of plant and for stimulating industrial activity. They must not be so high that the produce of a country cannot be handled at a profit. If they are suddenly forced up to levels which prevent this, the entire community soon begins to feel the effects, and the heaviest sufferers will be the wage earners themselves. Advances in wages generally follow naturally the advances in prices of commodities. As a rule they lag somewhat, but not very far, behind them, one reason being that it is generally uncertain at first whether any advance in general prices is likely to last, or whether it is purely temporary. On the other side when commodities fall wages do not generally fall in proportion to the fall in the level of general prices, if indeed they fall at all. No one will I imagine ever want to see them fall if it is possible to avoid it.

In the near future there is certain to be a reduction in the level of general prices, and the reduction is likely to be continuous,—perhaps for some years. Even if wages remain unchanged in nominal money value during this fall in prices, it is evident that they will be actually advancing while the fall is in progress. They will be actually advancing because the same wages will exchange for more goods of all kinds, and it is what wages will exchange for, and not the nominal amount of the wages themselves, that matters.

No one will question the imperative necessity that wages as a first principle should be at least sufficiently high to enable a man to live in decency and comfort and to support his family, and, beyond that, they should be as high as a Community can afford without injuring industry generally.

I merely touch on these general

considerations regarding wages and their proper limitations in both directions, without reference to any specific rates or to any special situation, which may arise here or elsewhere.

It seems opportune at this stage also to refer briefly to the vexed question of Direct vs. Indirect Taxation. By Direct Taxation of course is meant such direct levies as are embodied in Death Duties, Income Taxes, and Profit Taxes. Indirect Taxation is that which is generally levied upon Imports.

In well developed Industrial Communities, possessing much permanently invested and liquid Capital, large and wealthy populations, and with the country's resources already brought into operation, a major proportion of the requirements of the Government can with safety be raised by Direct Taxation. It is a matter that requires much more consideration in the case of poorer and more backward countries. It is not suggested that even in such countries there should be no such thing as Direct Taxation, but that the amount of Direct Taxation that can be wisely imposed depends upon the special conditions and circumstances existing in the country to which it is to be applied. Direct Taxation from the point of view of the community as a whole, (and entirely irrespective of the individuals affected), has this drawback—it takes away surplus savings that in the ordinary course of events would be reinvested permanently in increasing the machinery for production and transport—in other words it seizes potential reproductive capital, in the wise investment of which every man, woman and child in the community has a personal and permanent interest—withdraws it from permanent use and disburses it, often very unwisely and extravagant-

ly, upon current governmental expenditure. As reproductive capital it is to a large extent lost.

There is this difference between Direct and Indirect Taxation, that in the case of Indirect Taxation the amounts taken would not for the most part be added to the reproductive invested capital of the country at all, at least under present conditions, while the contrary holds good in the case of Direct Taxation. On the other hand it must be of course emphasised that Indirect Taxation is paid to a greater extent than Direct Taxation by those who cannot so well afford it. It will thus be seen that the question of the wisest course between Direct and Indirect Taxation, becomes like so many things in this imperfect world a question of judicious compromise. While conditions might easily arise where very heavy and indeed crippling Direct Taxation might in the general interest have to be superimposed upon heavy Indirect Taxation, it would be in normal times and particularly in countries which are not very fully developed industrially, a very serious mistake, and especially for the interests of the less opulent classes, to have Direct Taxation made more onerous than is absolutely necessary. For thereby you are apt to cut off the natural growth and increase in new capital investment without which there can be to-day no improvement in the conditions of life for anyone. For when new Capital is being constantly invested, no matter who happens to provide it, it means more competition and greater demand for human activities of every kind. It means cheapened production, advancing wages, and increasing comfort and happiness.

Consider for instance what the condition of this Colony would be to-day if in the first two years of the War the Government had step-



ped in and seized say two-thirds of all the commercial profits made in the country, and had spent them on current revenue. The money would for the most part have been disbursed and lost at once. The Mercantile Class would have been hampered and discouraged. The risks incidental to fishery outfits would have been much more difficult to face. Vessels would not have been built. Wholesale Merchants would have been less able to carry large stocks. Speculators would have been afraid to pay high prices for produce and would have been financially unable to hold against foreign buyers for good prices. The value of the Colony's products would have suffered. Imports would have fallen off and the revenue would probably have lost much more from these causes than it would have gained by the suggested heavy Direct Tax, while all, from the poorest to the richest, would have had a much more difficult round to travel so far. This is not an argument against ANY direct taxation. It is an argument in favour of making any direct taxation as moderate as it is possible to make it under normal conditions, not in the interests of the well to do, but in the interests of the whole community.

The two requisites about Direct Taxation are, first that it should be as moderate as possible, and second that it should be equitable and fair between man and man. It is in the latter point that the PROFIT TAX of 1917 failed, though owing to general misapprehension when the measure was before the Legislature in 1917 this has never been very generally understood. The inequity embodied in the Act has since been practically rectified through the Income Tax enactment.

The above discussion upon principles of taxation has injected itself

naturally as a result of the consideration of what Capital really is and what function it has to perform in the modern world with special reference to our own small community.

As between Capital, Labour and the State, there must be equity; there must be mutual understanding; there must be toleration; for until there is evolved some new and workable system, to replace our present system, upon which is based all modern civilisation worth the name, Labour and Capital are interdependent and the existence, maintenance, rights and progress of each must be preserved in the interests of both; and there is no other practical system of life in sight at the present time.

It has already been stated that the peculiar conditions existing in Newfoundland should help in the avoidance of that degree of enmity and misunderstanding which has in the past and which probably will for sometime in the future, beset the paths of many Industrial Communities. The line of demarkation between Capital and Labour is less marked here than it is in most places. For an unusually large proportion of the inhabitants of Newfoundland are in the strict sense of the word Capitalists, though not large or wealthy Capitalists. They are Capitalists because they themselves are the owners of the machinery of production. Outside of St. John's and a few other centres a major part of our population own their own boats, schooners, stages, fishing implements, stores and houses. They combine in themselves the essential and fundamental elements of both Capital and Labour. Comparatively few are working for fixed wages and the machinery for the most part is their own. I am dealing with the broad

industrial framework of the country.

In recent years this machinery of production has been enormously improved by the introduction of motor engines, which though largely bought on credit are now paid for and are owned by their users.

The result of this investment of Capital, and the consequent improvement of the machinery of production, has been that notwithstanding the withdrawal for war purposes of a considerable percentage of our most able-bodied men, the Colony's capacity for production has been increased and the Labour involved decreased and all classes have benefitted thereby,—a good instance of the beneficial effect on the community of the application of Capital to Industry.

I have referred to the increase in the issue of token money by the great Nations of the World since the war began. This increase has been stupendous. And yet in Great Britain these liabilities are not greater in proportion to the population and its wealth, than was the debt of the Nation at the end of the Napoleonic Wars. The importance of safeguarding and maintaining the National Capital, and the necessity of not driving it away is well exemplified by what happened then. For it has been often pointed out that what saved the Nation from disaster and bankruptcy was the enormous Industrial production which was rendered practicable by the development of the steam engine, and the energetic application of capitalistic enterprise and investment in steam plants of all kinds, which enabled the population of the British Isles to increase their individual output far beyond anything that had previously been known.

The industrial development of those days was of course accompanied by many abuses which would

not be tolerated now, and which could have been to a considerable extent prevented then, had these problems been as well understood and industry as well organized as it is to-day.

I have stated that until some entirely new system from that upon which civilisation has been hitherto progressing, shall be discovered, there must be co-operation, mutual toleration and support on the part of *both* Capital and Labour.

As yet no alternative workable system to replace the present one has been devised or is in sight. One hears a great deal about Socialism, and Socialism is often put forward as a practical system to displace the present so called capitalistic basis of society. Often a good deal of bitter feeling is worked up in advocating the destruction of the present capitalistic system and its replacement by Socialism. The entire subject is one that should pre-eminently be dealt with not excitedly but from the point of view of a calm judgment which has first informed itself as far as is possible, regarding all the ascertainable facts.

To begin with, Socialism,—precisely what is meant by the word Socialism—should be very clearly defined. A very large amount of ill-feeling incidental to such discussions is attributable to the fact that one man means one thing by Socialism, another means something quite different, and a third representing a large contingent has only the haziest notion of what he really does mean when he uses the word.

Socialism, as a definite conception, must not be confounded with a policy of progressive and regulated social reform. The word Socialist is often used to designate the wise, reasonable and progressive social reformer, and in this sense everyone who is not a fool or a scamp would like to subscribe himself a

Socialist. Everyone whose opinion is worth anything will agree that the present order of things is full of anomalies, injustices and abuses,—that the fabric of modern societies must experience enormous changes, that it requires improvement, and that it is in fact undergoing progressive change all the time. It is always easy to see the evils incidental to any system. It is not so easy to cure them. Radical and untried treatment is apt to be disastrous.

But Socialism, that is, properly defined orthodox Socialism, regarded as a logical and complete system, designed to displace the present system, is a very different thing from ordinary social reform. Orthodox Socialism has as its basis the acquisition or assumption by the Government in the supposed interests of the workers, of all the means of production. The State is to be the sole owner and the sole employer. Nobody is to possess any property that is incidental to co-ordinated industrial production. But I want to point out that this state of things would not do away with the necessity for the existence of Capital nor with the need for Industrial Profits. It would simply change the title deeds of nearly everything now in existence or that will hereafter come into existence, would dispossess by a sweeping process a very large number of individuals, and would vest it all in the Government. In doing this it would also alter the management. All property and industry would be managed by the Government—probably with the recognised inefficiency of Governments—instead of by the trained individuals who deal with management now.

If I have made myself clear in the earlier part of this paper you will see at once that Capital in its varied modern forms,—in factories, ships, stocks of food, etc., tools, stores,

wharves, improved lands, houses, furniture, etc., etc., must still remain in existence. Also that these properties will have to be kept up, repaired, extended and replaced from time to time, and that the introduction of new tools and machinery and methods must be tried experimentally and their acquisition provided for if they prove successful. This means that new capital also must constantly be created and it can only be created by profits, which would have to be provided in the same way as they have to be provided now.

There are difficulties which I shall not touch on in connection with the practical conduct of industry under Socialism, which I believe make it entirely unworkable among average human beings.

These however I shall not refer to as I am not going to argue the impracticability of Socialism as a working system for the world. What I am pointing out however, (and if I have made myself intelligible I think you will see that it must be so), is that Socialism will in no way do away with the absolute necessity for Industrial Capital and for Profits.

Now while the question of ownership is one of very great importance to the people of every country, it being obvious that a general widening, so to speak, of ownership, a growth in the number of proprietors, a steady increase of individual participation in capitalised wealth, should be encouraged and facilitated in every reasonable and legitimate way, the question of the DISTRIBUTION of the PRODUCTS of industry as contrasted with the OWNERSHIP of the machinery, is of much more importance.

When capital is invested in a boot and shoe factory, or in a railroad, no matter who owns it, it becomes for all intents and purposes an asset of

the community. It is a permanent producer of goods or a purveyor of services from which everyone benefits. It cannot be taken away. It can be of value to the owner only if it is operated continuously and only if it ministers to the wants and needs of the population. A boot and shoe factory **MUST** increase the supply of boots and **MUST** make them either better or cheaper or more accessible than boots would otherwise be.

The factory in itself is of no earthly use to anyone unless it increases production. It is if regarded simply by itself, of no use to its owners. Its product is what is of value. Its product is the only thing that gives it any value, and the more efficiently it is operated the better for the community. If the owner of the factory never drew anything out of it for himself at all, but kept on always reinvesting the entire profits in improvements and extensions he would obviously derive no personal material benefit from owning it. It would however go on being of increasing benefit to the community.

Almost the whole value of the output of a modern manufacturing plant goes to the community; enough however of the product must, under any system, be retained to cover the cost of upkeep and renewals. Over and above this necessary reserve for upkeep, the actual additional percentage of its products retained by its owners to provide interest or dividends for shareholders is as a rule a very small percentage of the annual product which it supplies to the public, and this percentage under poor management is very easily lost. There are instances of course recurring every day where it is lost, and in such circumstances a change of management generally becomes necessary, if the industry is to be saved. If it were under Government management the chances

are that this small percentage of interest or profit would be lost altogether,—probably more than this would be lost, and no one as a result would be any better off, in fact, everyone would be worse off. There would be no profits or savings to create new capital wherewith to extend the factory or to build other factories. The Government like the individual would in managing general industry still have to make profits, and savings out of these profits, if the whole community were not to become stagnant and to retrogress. But Governments do not save. Saving is a virtue that is utterly foreign to any modern Government. Indeed it is questionable whether any Government would be able to retain profits sufficient for the needs of society.

The difference in principle therefore between socialistic ownership and individual ownership does not hinge upon the elimination of Capital or of Profits, but has reference to the management of the industry and to the percentage of the products which under the present system are retained to provide a dividend for the shareholders. In the aggregate of industries to-day a substantial part of the profits that are annually made, are actually saved and are at once reinvested. That is to say, a substantial proportion of such profit is not spent upon current consumption, but is saved and becomes available capital, which in its turn permits the establishment of new activities and new avenues of employment, and it is at least an open question whether the provision of a percentage upon products does not through the stimulus it provides towards individual industry, enterprise and thrift and in other ways, fully compensate the community for permitting it.

In any case I repeat that if the Government operated all industries,



they would still have to retain from public consumption, first, enough of the products to provide for upkeep and replacement in the plants, and second, if any extensions and new operations are to be provided, they would have to retain a further portion to furnish these. Even if under Socialism therefore, the Government management proved as efficient as the present system of management, it is very doubtful to what substantial extent the average individual would be better off than he is now. And as a matter of fact I think we all know that normal Government management has for the most part been so exceedingly inefficient, that it is almost a by-word even in the most enlightened countries.

For instance a well known French authority—MR. LEROY BEAULIEU—referring to the French State owned railways says: "From 'all points of view the experience 'of the State railroads in France is 'unfavourable. The State, primarily an elective administrator, cannot be a good commercial administrator."

There are very few people who will not admit the correctness of the principle at once.

As a matter of practical fact, fixed capital investments represented by tangible and useful things, (such things as premises, ships, machinery, tools and fishing implements), although managed by private individuals, are in reality assets of the community to-day, and the profits derived from them by these individuals, in so far as they are retained as savings and reinvested in similar things again, become in their turn assets of the community, and benefit everyone by the products or services they provide. The only part really with drawn for private use under the present system of private ownership, is (a) the amount reason-

ably spent upon individual living expenses, which would be unavoidable under any system, for under Government ownership it would still have to be paid to individuals as salaries for management, (b) money sent permanently out of the country, and (c) the further part which may perhaps be wasted in personal extravagance, or which is used to keep people in idleness who ought in the general interest to be hard at work, and which in this way is lost to the community. The total amount of such waste would represent a very small percentage of the total products of industry, and it is probably more than offset by an increase in efficiency as against Government management. In any case the evil of this kind of waste is now recognised and Legislative action will penalise it more and more.

To sum up these very general and imperfect observations on a subject every phase of which would furnish matter for a long dissertation, I suggest the following considerations as being warranted by common sense:

1. That the safest road to social betterment for modern communities lies in the reasoned and sane development of the present industrial system upon which society has evolved and upon which it is based.

2. That while restraints upon capital are desirable, to the intent that it shall not be in a position to exploit unduly other community interests, such restraints should, in the general interest, be made neither confiscatory nor oppressive.

3. That fair profits for commerce and industry should be generally recognised as desirable.

4. That such profits when they are saved and reinvested in reproductive industry tend to improve the position of every individual in the community, further tend to stimulate employment, and constitute a

permanent benefit to the commonwealth as a whole.

5. That it should be the endeavour of every industry to provide wages sufficient at least to enable the worker to live and to bring up his family in conditions of health and decency—(if it cannot do this it should be remodelled or abandoned)—and beyond this, every country and every enterprise should aim to co-operate with the worker in his effort to lift himself as far above that point as may be possible without endangering the sound and permanent progress of the community as a whole.

6. That the broadening of individual ownership through investment in commercial enterprise, in Government bonds, in ships, in stocks of registered companies and in property of all kinds should be facilitated and encouraged in every possible way.

7. That moderation should be cultivated on both sides so that neither Capital nor Labour shall be oppressed or discouraged, but both work together for the general betterment.

Opportunities for the improvement of industrial society and conscious efforts to avail of them are constantly increasing nowadays and

are a sign of progress and healthy life. It is important for every class that throughout this process extremes should be avoided, and that evolution and readjustment should be given every chance to ease the course. When differences arise conference and discussion will accomplish a great deal.

As I stated at the commencement of these papers this discussion has dealt mainly with one aspect of the industrial problem. No one is more aware than I am that there are others no less important.

May I conclude by saying that probably the most urgent need for general betterment lies in the extension of Education. A population that is individually and collectively well educated will continually create new opportunities for progress, and will at once seize upon these opportunities and rise rapidly to higher planes.

The problem of Free and Compulsory Education combined with efficient medical inspection and a more generous recognition and appreciation of the enormous importance of the community of the Teaching Profession should be faced before we go much further.

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